

Public Service Commission of Wisconsin  
RECEIVED: 02/19/15, 11:44:31 AM

STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

CASE 12-M-0192 - Joint Petition of Fortis Inc. et al. and CH  
Energy Group, Inc. et al. for Approval of the  
Acquisition of CH Energy Group, Inc. by Fortis  
Inc. and Related Transactions.

ORDER AUTHORIZING ACQUISITION  
SUBJECT TO CONDITIONS

(Issued and Effective June 26, 2013)

TABLE OF CONTENTS

BACKGROUND AND PROCEDURAL HISTORY.....	2
PUBLIC COMMENTS.....	5
THE JOINT PROPOSAL'S TERMS.....	11
A.    Risk Mitigation.....	11
1. Corporate Structure, Governance and Financial Protections.....	11
a. Goodwill and Acquisition Costs .....	12
b. Credit Quality and Dividend Restrictions .....	12
c. Money Pooling .....	15
d. Special Class of Preferred Stock .....	15
e. Financial Transparency and Reporting .....	16
f. Affiliate Standards .....	17
g. Follow-On Merger Savings .....	18
h. Corporate Governance and Operational Provisions ....	18
2. Performance.....	20
a. Performance Mechanisms .....	20
i. Service Quality.....	20
ii. Electric Reliability .....	21
iii. Gas Safety .....	21
iv. Leak-Prone Pipe .....	22
b. Expenditure Requirements .....	22
i. Right-of-Way Tree Trimming.....	22
ii. Stray Voltage Testing .....	23
iii. Infrastructure Investment .....	23
B.    Incremental Benefits.....	23
1. Rate Freeze.....	24
2. Earnings Sharing.....	24
3. Synergy Savings.....	24
4. Deferral Write-Offs and Future Rate Mitigation.....	24
5. Community Benefit Fund.....	25
a. Low-Income Program Enhancements .....	25
b. Economic Development .....	26
6. State Infrastructure Enhancements.....	27
7. Gas Expansion Pilot Program.....	27

8. Retail Access.....	28
DISCUSSION OF EXCEPTIONS TO THE RECOMMENDED DECISION.....	28
Overall Balance of Interests .....	29
Economic Benefits .....	31
Jobs .....	32
NAFTA .....	33
Low-Income Programs .....	34
Foreign Ownership .....	36
Community Values .....	37
Financial Safeguards .....	39
Environment and Infrastructure .....	44
Retail Access .....	46
PETITIONERS' ENHANCEMENTS.....	48
MOTION FOR EVIDENTIARY HEARINGS.....	52
CONCLUSION.....	58

STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

At a session of the Public Service  
Commission held in the City of  
Albany on June 13, 2013

COMMISSIONERS PRESENT:

Garry A. Brown, Chairman  
Patricia L. Acampora  
James L. Larocca  
Gregg C. Sayre

CASE 12-M-0192 - Joint Petition of Fortis Inc. et al. and CH  
Energy Group, Inc. et al. for Approval of the  
Acquisition of CH Energy Group, Inc. by Fortis  
Inc. and Related Transactions.

ORDER AUTHORIZING ACQUISITION  
SUBJECT TO CONDITIONS

(Issued and Effective June 26, 2013)

BY THE COMMISSION:

INTRODUCTION

By this order, we authorize the acquisition of CH  
Energy Group Inc. (CHEG), the parent company of Central Hudson  
Gas & Electric Corporation (Central Hudson), by Fortis Inc.  
(Fortis). In doing so, we adopt, with modifications, the terms  
of a Joint Proposal submitted for our consideration on  
January 28, 2013, by the Department of Public Service trial  
staff (Staff); Fortis; CHEG; the Utility Intervention Unit of  
the Department of State (UIU); Multiple Intervenors (MI); and  
the Counties of Dutchess, Orange and Ulster. Those terms ensure  
significant, tangible benefits for Central Hudson's customers  
including \$9.25 million in guaranteed rate savings, a \$35  
million fund to be used for deferral write-offs and/or future  
rate mitigation, a \$5 million Community Benefit Fund for low-

income customer programs and economic development, a rate freeze, and an earnings sharing mechanism more favorable to ratepayers. They also establish comprehensive financial safeguards, corporate governance requirements, service quality and performance mechanisms, and other measures that will minimize any risk associated with the transaction. With certain other requirements we will add to the terms originally proposed, we find that, on balance, the acquisition will provide a significant net public benefit, and will serve the public interest as required by Public Service Law (PSL) §70.

#### BACKGROUND AND PROCEDURAL HISTORY

On February 20, 2012, CHEG entered into an Agreement and Plan of Merger (Merger Agreement) with Fortis, a Canadian holding company; FortisUS Inc. (FortisUS), a wholly-owned subsidiary of Fortis; and Cascade Acquisition Sub Inc. (Cascade), a wholly-owned subsidiary of FortisUS. Under the terms of the Merger Agreement, CHEG would merge with Cascade, with CHEG as the surviving entity.

Central Hudson, a regulated utility serving about 301,000 electric customers and 75,000 natural gas customers, 85% of them residential, in eight counties in the mid-Hudson region, is a wholly owned subsidiary of CHEG. As a result, consummation of the proposed merger would make Central Hudson an indirect, wholly-owned subsidiary of Fortis.

Under PSL §70, the transfer of ownership of all or any part of the franchise, works or system of any gas or electric corporation is prohibited without the consent of the Commission. That consent may be given only if the Commission determines that the proposed acquisition, with such terms and conditions as the Commission may fix and impose, "is in the public interest." Consequently, on April 20, 2012, Fortis, FortisUS, Cascade, CHEG

and Central Hudson sought such consent by filing the petition that is the subject of this proceeding.

Subsequent to the filing, the matter was assigned to Administrative Law Judges, and a Notice of Proposed Rulemaking was published.<sup>1</sup> On May 16, 2012, the judges conducted an initial procedural conference. Participants at the conference in addition to Petitioners and Staff were UIU, MI, the International Brotherhood of Electrical Workers Local 320 (IBEW Local 320), the Retail Energy Supply Association (RESA), Empire State Development Corporation; and the County of Dutchess. All were admitted as parties to the proceeding, as were Hess Corporation, the County of Orange, the County of Ulster, the Joint Task Force of the Town and Village of Athens (Athens), the Public Utility Law Project of New York, Inc. (PULP), and, as a group, Accent Energy Midwest Gas, LLC, Accent Energy Midwest II, LLC, IGS Energy, Inc., and Interstate Gas Supply, Inc.

Following eight months of litigation, during which testimony was filed by Staff and PULP, and comments were submitted by Athens, Dutchess County, ESD, IBEW Local 320, MI, and UIU, Petitioners filed a notice of settlement negotiations in December 2012. Discussions pursuant to that notice led to the Joint Proposal we are now considering.

In a January 29, 2013, ruling, the judges established a schedule for statements in support of, or opposition to, the Joint Proposal. Statements expressing general support for the Joint Proposal were filed by Petitioners, Staff, MI and UIU. The Counties of Dutchess, Orange, and Ulster expressed support

---

<sup>1</sup> *New York State Register*, May 23, 2012, p. 15.

limited to specific provisions of the Joint Proposal.<sup>2</sup>

Statements opposing adoption of the Joint Proposal in its present form were filed by PULP, RESA, the New York State Energy Marketers Coalition, and IBEW Local 320. Reply statements were filed by Petitioners, Staff, IBEW Local 320, MI, PULP, and RESA.

In their January 29, 2013, ruling, the judges also required that any party advocating an evidentiary hearing on the Joint Proposal must specify in its initial comments a material issue of fact that could not be resolved without the cross-examination of witnesses. No party's initial comments attempted to make such a showing and, accordingly, no evidentiary hearing was held.

On April 24, 2013, the Secretary issued a notice announcing the preparation of a Recommended Decision (RD) and a schedule for the filing of exceptions. The RD was filed by the judges on May 3, 2013. It recommended that the Joint Proposal not be approved and that the petition to authorize the merger transaction be denied. Exceptions to the RD were subsequently

---

<sup>2</sup> The signatures of the Counties were accompanied by disclaimers stating that they were affixed for the purpose of expressing support for specific provisions of the Joint Proposal, and that the Counties took no position on the balance of the document. In general, the Counties stated support for provisions calling for a rate freeze, the crediting of synergy savings, and the payment of positive benefits including the Community Benefit Fund and write-down of regulatory assets. The Counties participated as parties, and signed the Joint Proposal, through their county executives. Subsequent to execution of the Joint Proposal, the Ulster County legislature, by resolution, and a majority of the members of the Dutchess County legislature, by letter, opposed approval of the proposal, while Orange County Executive Edward Diana submitted comments supporting it fully.



filed by Staff, Petitioners, MI, UIU, PULP, and Citizens for Local Power and the Consortium in Opposition to the Acquisition.<sup>3</sup>

PUBLIC COMMENTS

On February 21, 2013, public statement hearings concerning the Joint Proposal were held in Kingston and Poughkeepsie. Approximately 40 people attended the hearings, 17 of whom provided comments on the record. Commenters included Central Hudson customers from throughout the utility's service territory, as well as New York State Assembly Member Kevin Cahill and Town of Rosendale Council Member Manna Jo Greene.

The original notice of public statement hearings called for all comments to be submitted by March 21, 2013. After receiving numerous requests for additional time from public officials and others, the Secretary extended the deadline through May 1, 2013. During the extension period, additional public statement hearings were held on April 17, 2013, in Poughkeepsie and April 18, 2013, in Kingston. Approximately 130 people attended the hearings and 47 provided comments. Speakers included Assembly Member Frank Skartados, Dutchess County Legislators Richard Perkins and Joel Tyner, Rosendale Council Member Greene, Rosendale Supervisor Jeanne Walsh, Woodstock Town Council Member Jay Wenk, and a representative from the office of State Senator Cecilia Tkaczyk. All speakers at all of the public statement hearings opposed the merger. Through June 12, 2013, over 500 comments opposing the merger were received by the Commission by mail, e-mail, telephone, and posting to the Commission's website. In addition, 913 individuals had signed a

---

<sup>3</sup> These last two parties were admitted on May 1, 2013. Although some members of the groups had previously submitted comments, the organizations themselves had not participated in the proceeding prior to their admission. These parties have participated jointly in the proceeding and are referred to herein as CLP/COA.

petition posted on the SignOn.org website expressing opposition to the merger.<sup>4</sup>

Commenters opposed to the merger included Senator Tkaczyk and Senator Terry Gipson; Assembly Members Cahill, Didi Barrett, and James Skoufis; City of Beacon Mayor Randy Casale; Town of Woodstock Supervisor Jeremy Wilber; 13 members of the Dutchess County Legislature, by joint letter; Dutchess County Legislature Assistant Majority Leader Angela Flesland, individually; and former Member of Congress Maurice D. Hinchey. All of these past and present public officials urged the Commission to disapprove the proposed merger transaction, as did resolutions adopted by the Ulster County Legislature; the City of Newburgh; the Towns of Esopus, Marbletown, Newburgh, New Paltz, Olive, Rosendale, and Woodstock; the Village of Red Hook, and the Rosendale Environmental Commission. The Economic Development Committee of the Town of Red Hook also opposed the merger, as did AARP, the Sierra Club, the Dutchess County Central Labor Council, and the Hudson Valley Area Labor Federation.

Opponents of the merger expressed varying degrees of concern about the potential for long-run negative consequences not only for Central Hudson ratepayers, but also for the economic well-being of the utility's Mid-Hudson service territory if the transaction were consummated. The themes evoked most frequently in the comments derived from the perception that the transaction would replace a well-regarded, highly capable and locally engaged utility with a foreign entity of unproven quality having no inherent ties to the service

---

<sup>4</sup> The SignOn.Org website allows petition signers to cause e-mails to be sent to the Secretary memorializing their signatures, and many individuals availed themselves of that option. The numbers cited above do not include those e-mails.

ii. Stray Voltage Testing

The Joint Proposal would establish targeted expenditures for the year ending June 30, 2014, of \$2.023 million for stray voltage testing and \$350,000 for stray voltage mitigation. If Central Hudson's expenditures fell short of either of the targets, the shortfall would be deferred for the benefit of ratepayers with carrying charges at the pre-tax rate of return.

iii. Infrastructure Investment

The Joint Proposal would continue the net plant reconciliation mechanism included in Central Hudson's current rate plan with new targets established for the year ending June 30, 2014. Actual net plant in service as of that date would be compared to the targets and the revenue requirement impact of any difference would be calculated using the methodology described in Attachment IV to the Joint Proposal.<sup>20</sup> If the difference were negative, Central Hudson would be required to defer the revenue requirement impact for the benefit of ratepayers with carrying charges at the pre-tax rate of return. If the difference were positive, no deferral would be permitted.

B. Incremental Benefits

While the provisions of the Joint Proposal discussed above are intended to be beneficial to ratepayers, their primary purpose is to reduce the potential for negative impacts from the merger. Consequently, to ensure a net positive outcome for ratepayers, the Joint Proposal includes a number of provisions that are designed to generate incremental benefits that would not be realized in the absence of the merger.

---

<sup>20</sup> The signatory parties confirmed that references to "Attachment III" on page 34 of the Joint Proposal should read "Attachment IV."

### 1. Rate Freeze

The Joint Proposal provides that Central Hudson rates currently scheduled to remain in effect through June 30, 2013, would continue through June 30, 2014 -- a one-year rate freeze.

### 2. Earnings Sharing

Central Hudson's current rate plan specifies that when the utility's earned return on equity exceeds 10.5%, ratepayers receive 50% of the excess up to an earned return of 11.0%; 80% of the excess between 11.0% and 11.5%; and 90% of the excess over 11.5%. Under the terms of the Joint Proposal, the 50% and 90% sharing thresholds would be lowered, and the 80% sharing level would be eliminated. Ratepayers would be credited with 50% of earnings between 10.0% and 10.5%, and 90% in excess of 10.5%. In addition, Central Hudson would be required to apply 50% of its share of earnings exceeding 10.5% to write down certain deferred expenses that would otherwise be recovered in rates, provided that doing so would not reduce the actual earned return below 10.5%.

### 3. Synergy Savings

The signatories to the Joint Proposal agree that the merger transaction will generate synergy savings of at least \$1.85 million annually, and Central Hudson would guarantee this amount for five years, for a total of \$9.25 million. The savings would begin to accrue in the month following closing of the merger transaction and would be available for rate mitigation at the start of the first rate year in the next rate case filed by Central Hudson.

### 4. Deferral Write-Offs and Future Rate Mitigation

The Joint Proposal specifies that upon closing of the merger, Fortis will provide Central Hudson \$35 million which will be recorded as a regulatory liability, to be used to write

down storm restoration expenses for which deferral and recovery from ratepayers has been requested in three pending petitions to the Commission, including most notably one for Superstorm Sandy.<sup>21</sup> The total deferral requested in those petitions is \$29.7 million, of which \$11.1 million has been denied, with petitions for rehearing pending. The total deferral authorized will, therefore, be less than \$35 million. The Joint Proposal provides that the unused portion of the \$35 million will be reserved for the benefit of ratepayers as a regulatory liability with carrying charges at the pre-tax rate of return, subject to future disposition by the Commission.

#### 5. Community Benefit Fund

In addition to the \$35 million for deferral write-offs and rate mitigation, Fortis would be required to provide Central Hudson \$5 million for a Community Benefit Fund to be used for low-income customer and economic development programs.

##### a. Low-Income Program Enhancements

The Joint Proposal specifies that \$500,000 from the Community Benefit Fund would be used to supplement funds currently provided in rates for programs targeted to low-income customers. Currently, Central Hudson provides a bill credit of

---

<sup>21</sup> The three cases involve storm restoration costs associated with Hurricane Irene in August 2011, a major snowstorm in October 2011, and Superstorm Sandy in October 2012. In Case 11-E-0651, *Central Hudson Gas & Electric Corp.- Storm Restoration Expenses for the Rate Year Ended June 30, 2012*, we approved deferral of \$8.9 million in expenses associated with Irene. Central Hudson had sought deferral of \$11.4 million. A petition for rehearing is pending. In Case 12-M-0204, *Central Hudson Gas & Electric Corp.- Costs Associated with the October 29, 2011 Snow Storm*, we denied recovery of \$8.6 million associated with the snowstorm. A petition for rehearing is pending. In Case 13-E-0048, *Central Hudson Gas & Electric Corp.- Deferred Incremental Costs*, Central Hudson seeks deferral of \$9.7 million in costs associated with Superstorm Sandy. The case is pending.

be said is that the procedures adopted are tailored to the nature of the facts and issues to be determined.<sup>47</sup> For example, among the merger cases cited by CLP/COA to show that evidentiary hearings are customary, three differed from this case in that each included establishment of a detailed rate plan,<sup>48</sup> and the fourth differed in that the parties did not negotiate a Joint Proposal.<sup>49</sup> And in none of the other cases was the evidentiary hearing proposed belatedly as here.

In summary, the judges were correct that to grant the motion for hearings would be improper because of the circumstances in which CLP/COA intervened, would be prejudicial and contrary to the public interest, and would not enhance the record on any material issue requiring a decision.

#### CONCLUSION

The acquisition of CHEG by Fortis, subject to the terms of the Joint Proposal as modified, clarified and

---

<sup>47</sup> A typical criterion in choosing between evidentiary hearings and other procedures is whether the issues are factual. As the judges in another proceeding explained: "we are not excluding issues from consideration in the hearing process, ... instead, we are distinguishing between contested factual matters requiring adjudication and legal or policy matters, for which no facts are in dispute, and which are appropriately addressed by argument." Case 10-T-0139, *Champlain Hudson Power Express Inc. - Transmission Siting*, Ruling on Issues (issued May 8, 2012), p. 3, n. 7.

<sup>48</sup> Case 01-M-0075, *Niagara Mohawk Power Corp., National Grid PLC, et al. - Merger*, Opinion and Order Authorizing Merger and Adopting Rate Plan (issued December 3, 2001); Case 01-E-0359, *N.Y.S. Electric & Gas Corp. - Price Protection Plan*, Order Adopting Provisions Of Joint Proposal With Modifications (issued February 27, 2002); Case 06-M-0878, *National Grid PLC and KeySpan Corp. - Stock Acquisition*, Order Authorizing Acquisition Subject to Conditions and Making Some Revenue Requirement Determinations (issued September 17, 2007).

<sup>49</sup> Case 07-M-0906, *Iberdrola S.A., Energy East Corp., et al. - Acquisition*.

supplemented in our discussion above, provides substantial benefits and minimal risks. We approve it as being in the public interest within the meaning of PSL §70.<sup>50</sup>

As the RD explained, the clearest articulation of the public interest analysis in a case such as this can be found in our decision approving the acquisition of New York State Electric and Gas Corporation and Rochester Gas & Electric Corporation by Iberdrola.<sup>51</sup> It starts by requiring Petitioners to make a three-part showing: that the transaction would provide customers positive net benefits, after considering (1) the expected benefits properly attributable to the transaction, offset by (2) any risks or detriments that would remain after applying (3) reasonable mitigation measures.

Once we have gauged the net benefits by comparing the transaction's intrinsic benefits versus its detriments and risks, we can assess whether the achievement of net positive benefits requires that the intrinsic benefits be supplemented with monetized benefits (sometimes described as "positive benefit adjustments" or PBAs). Then, if necessary, we establish a quantified PBA requirement, "as an exercise of informed judgment because there is no mathematical formula on which to base such a decision."<sup>52</sup>

---

<sup>50</sup> In adopting the Joint Proposal's terms, we neither reject nor adopt the terms stated in §§VI.A. through F. of the Joint Proposal ("Other Provisions"), as they concern only the parties' mutual obligations. Nothing in the Joint Proposal would preclude reliance on our order adopting the Joint Proposal's terms, as precedent in other cases. See Cases 06-G-1185 and 06-G-1186, *KeySpan Energy Delivery - Rates*, Order Adopting Gas Rate Plans (issued December 21, 2007), pp. 58-60.

<sup>51</sup> RD pp. 57-58.

<sup>52</sup> *Iberdrola* order, p. 136.

In this instance, the elements we called for in *Iberdrola* are combined in a Joint Proposal whose terms include the basic merger transaction, measures to mitigate the transaction's risks or detriments, and supplemental, monetized benefits. In reviewing the proposed benefits achievable only through approval of the transaction and the Joint Proposal, we find them sufficiently significant, and the risks sufficiently minimized, to produce a net positive benefit for ratepayers that justifies approval of the transaction.

As we have discussed, the benefits include \$9.25 million in guaranteed rate savings, a \$35 million fund to be used for deferral write-offs and/or future rate mitigation, a \$5 million Community Benefit Fund for low-income customer programs and economic development, and an earnings sharing mechanism more favorable to ratepayers than the present formula. As for any offsetting risks or detriments, we find that they have been minimized sufficiently, because the Joint Proposal's terms as modified and adopted establish comprehensive financial safeguards, corporate governance requirements, employee retention requirements, service quality and performance mechanisms, and other risk mitigation measures. Those provisions together with Fortis's "federal" business model and an extension of Central Hudson's current level of community involvement will ensure the continuation of Central Hudson's role in its service territory as a responsive and responsible corporate citizen.

Based on these considerations, we find that the proposed transaction provides a clear net benefit to Central Hudson's ratepayers, and that the transaction therefore is in the public interest as required by PSL §70.

Finally, we are conditioning our approval of the transaction on Petitioners' providing the "enhancements"



outlined above, namely: an extension of the originally proposed rate freeze through June 30, 2015; job security provisions extended to four years as compared with the two years originally proposed; continuation of Central Hudson's level of involvement in community programs for ten years, rather than the five originally proposed; and a provision that Central Hudson's Board of Directors will include two independent directors residing in the service territory, rather than one as originally proposed.

In summary, we approve the merger transaction because it will serve the public interest as required by PSL §70; and we adopt Petitioners' proposed enhancements, because they provide other advantages additional to those enumerated in the Joint Proposal. Therefore, the motion is denied.

The Commission orders:

1. In accordance with the foregoing discussion, and subject to the determinations and understandings set forth above, the terms of the Joint Proposal dated January 25, 2013, which was filed in this proceeding on January 28, 2013, are adopted in their entirety except as otherwise noted, and are incorporated as part of this order.

2. Fortis Inc. and CH Energy Group, Inc., on behalf of themselves and their subsidiaries that are parties to the petition initiating this proceeding, must submit a written statement of complete and unconditional acceptance of this order and its terms and conditions, signed and acknowledged by duly authorized officers before the earlier of the closing date of the proposed acquisition or July 8, 2013. These statements must be filed with the Secretary and served contemporaneously on all active parties in this proceeding. In the absence of such acceptance, our approval of the proposed acquisition is rescinded.

3. Within 90 days following the closing of the merger, Fortis Inc. shall file with the Secretary a Tax Preparation and Sharing Agreement incorporating the provisions described in this order.

4. Pursuant to PSL §108, Central Hudson Gas & Electric Corporation is authorized to amend its Certificate of Incorporation to provide for the establishment of a class of preferred stock having one share subordinate to any existing preferred stock, as defined by the terms of the Joint Proposal that we are adopting by this order. Such share of stock shall have voting rights only with respect to Central Hudson Gas & Electric Corporation's right to commence any voluntary bankruptcy without the consent of the holder of that share of stock.

5. As described in the body of this order, within 20 days following the issuance of this order, Central Hudson Gas & Electric Corporation shall file with the Secretary its capital investment plan and proposed targets for tree trimming expenditures, stray voltage testing and mitigation costs, and net plant for the year ending June 30, 2015. Forty-five days after that submission, Central Hudson and Staff shall file their respective or joint recommendations concerning the tree trimming expenditure, stray voltage testing and mitigation costs, and net plant targets with the Secretary for a final Commission determination.

6. The motion for evidentiary hearings filed by Citizens for Local Power and the Consortium in Opposition to the Acquisition is denied.

7. The Secretary in his sole discretion may extend any deadlines established by this order.

8. This proceeding is continued but shall be closed by the Secretary as soon as the compliance filings have been completed, unless he finds good cause to continue it further.

By the Commission,

(SIGNED)

JEFFREY C. COHEN  
Acting Secretary

Public Service Commission  
State of New York

x-----x :  
Joint Petition of Fortis Inc., FortisUS :  
Inc., Cascade Acquisition Sub Inc., CH :  
Energy Group, Inc., and Central Hudson :  
Gas & Electric Corporation for Approval : Case 12-M-0192  
of the Acquisition of CH Energy Group, :  
Inc. by Fortis Inc. and Related :  
Transactions. :  
x-----x :

Joint Proposal for Commission Approval of the Acquisition of  
CH Energy Group, Inc. by Fortis Inc. and Related Transactions

Dated: January 25, 2013

## TABLE OF CONTENTS

I.	INTRODUCTION .....	1
II.	PROCEDURAL SUMMARY .....	1
III.	APPROVAL OF TRANSACTION .....	2
IV.	TERMS OF COMMISSION APPROVAL .....	3
A.	Corporate Structure and Financial Protections .....	3
1)	Goodwill and Acquisition Cost Conditions .....	3
2)	Credit Quality and Dividend Restriction Conditions .....	5
3)	Money Pooling Conditions .....	10
4)	Special Class of Preferred Stock Conditions ....	11
5)	Financial Transparency and Reporting Conditions .....	14
6)	Affiliate Transactions, Cost Allocations, and Code of Conduct .....	18
7)	Follow-On Merger Savings .....	20
8)	Corporate Governance and Operational Provisions .....	21
B.	PERFORMANCE MECHANISMS .....	24
1)	Customer Service .....	24
2)	Negative Revenue Adjustments ("NRAs") .....	25
3)	Electric Reliability .....	26
4)	Gas Safety Metrics .....	27
5)	Infrastructure Enhancement for Leak-prone Pipe .....	30
C.	RATE FREEZE PROVISIONS .....	31
1)	Earnings Sharing and Calculations of Earned Rates of Return .....	31
2)	Distribution and Transmission Right-of-Way Tree Trimming and SIR Costs .....	32
3)	Stray Voltage Testing .....	33

D.	NET PLANT TARGETS .....	34
E.	LOW INCOME .....	35
F.	RETAIL ACCESS .....	40
G.	ECONOMIC DEVELOPMENT AND SUPPORT FOR STATE INFRASTRUCTURE ENHANCEMENTS .....	42
1)	Economic Development .....	42
2)	State Infrastructure Enhancements .....	44
3)	Gas Expansion Pilot Program .....	44
H.	NEXT RATE CASE FILING .....	47
V.	ECONOMIC BENEFITS, INCLUDING SYNERGIES AND POSITIVE BENEFIT ADJUSTMENTS .....	48
A.	Synergy Savings/Guaranteed Rate Reductions .....	49
B.	Deferred Storm Restoration Cost Write-offs and Future Rate Mitigation .....	49
1)	Storm Restoration Cost Write-offs .....	50
2)	Disposition of the Remaining Balance .....	51
C.	Community Benefit Fund .....	52
VI.	OTHER PROVISIONS .....	52
A.	Counterparts .....	52
B.	Provisions Not Separable .....	53
C.	Provisions Not Precedent .....	54
D.	Submission of Proposal .....	54
E.	Further Assurances .....	55
F.	Entire Agreement .....	55
VII.	SIGNATURES .....	55

ATTACHMENT I: STANDARDS OF CONDUCT

ATTACHMENT II: ELECTRIC RELIABILITY PERFORMANCE MECHANISM

ATTACHMENT III: PARTS 255/261 MATERIALS

ATTACHMENT IV: NET PLANT TARGETS

V. ECONOMIC BENEFITS, INCLUDING SYNERGIES AND POSITIVE BENEFIT ADJUSTMENTS

Petitioners have agreed to provide quantified economic benefits comprised of the following synergy and positive benefit adjustments: (i) synergy savings which are guaranteed for a period of 5 years and which will provide for future rate mitigation of \$9.25 million over the 5 years; (ii) a total of \$35 million of combined write-offs of deferred regulatory assets and future rate mitigation funds; and, (iii) one-time funding of \$5 million for a Community Benefit Fund for economic development and low income purposes. The Signatories agree that the benefits identified herein are sufficient to meet the Commission's public interest criterion (PSL Section 70).

In reaching these agreements, the Signatories have recognized a number of additional factors that demonstrate that these quantified benefits are appropriate. The Signatories agree that the corporate governance and financial commitments made by Petitioners, together with the nature of Fortis' business model and proven track record, reduce the risks presented by this transaction and provide additional value to Central Hudson's ratepayers. In addition, the Signatories agree that absent the transaction, it is likely that Central Hudson could have

demonstrated a need for a rate increase for the Rate Freeze Period. However, as a consequence of Central Hudson opting not to file a rate case for the Rate Freeze Period as part of the terms of this Joint Proposal, rates will be frozen for the full Rate Freeze Period. The parties agree these provisions provide additional benefits.

A. Synergy Savings/Guaranteed Rate Reductions

The Signatories have agreed that the transaction will produce synergy savings/guaranteed future rate mitigation totaling \$9.25 million (\$1.85 million/year for 5 years). Petitioners have agreed to guarantee these cost savings for a period of five years, and will begin accruing these guaranteed cost savings in the month following closing. The Signatories recognize that this accrual will provide rate mitigation for the benefit of customers that will be available at the start of the first rate year in the next rate case filed by Central Hudson. The Signatories anticipate that the forecast effect of the synergy cost savings will also be reflected in rates in Central Hudson's next rate case.

B. Deferred Storm Restoration Cost Write-offs and Future Rate Mitigation

A total of \$35 million will be provided to Central Hudson by Fortis upon the closing of the transaction and will be



recorded as a regulatory liability to be applied to write off regulatory assets on the books of Central Hudson due to storm restoration costs and to provide balance sheet offsets and rate mitigation in Central Hudson's next rate filing.

1) Storm Restoration Cost Write-offs

Central Hudson currently has two storm restoration cost deferral petitions pending before the Commission in Cases 11-E-0651 (\$11.0 million exclusive of carrying charges) and 12-M-0204 (\$1.6 million exclusive of carrying charges), for a total of \$12.6 million exclusive of carrying charges.

Additionally, Central Hudson has estimated that the incremental storm restoration costs above the current rate allowance resulting from Super-storm Sandy will be approximately \$10 million. The Signatories agree that Central Hudson shall file a formal Super-storm Sandy deferral petition as soon as reasonably practicable.<sup>3</sup>

The Signatories agree to utilize a placeholder total for these three events of \$22 million. The

---

<sup>3</sup> The Signatories agree that the review of the new petition will be expedited to the extent possible.

Signatories agree that \$22 million will be written off promptly after the closing against the \$35 million regulatory liability being funded by Fortis, subject to true-up for subsequent Commission determinations concerning the storm restoration costs of the three storms. The Signatories agree that the three deferral requests will be reviewed by Staff consistent with the principles and practices in the recent Central Hudson storm restoration deferral petitions involving Twin Peaks (February 2010) in Case 10-M-0473 and the December 2008 ice storm in Case 09-M-0004.

2) Disposition of the Remaining Balance

The difference between the \$35 million being provided by Fortis and the \$22 million in placeholder storm restoration cost write-offs is currently estimated as a \$13 million placeholder. The Signatories agree that this \$13 million difference will be reserved as a regulatory liability with carrying charges at the pre-tax rate of return rate. At the time of the final, trued-up storm restoration cost determination by the Commission, the reserve and associated carrying charges will be adjusted up or down to conform to

[51]

the Commission's determination. The final amount will be reserved for additional future balance sheet write-offs or other rate moderation purposes, as shall be determined in Central Hudson's next rate case.

C. Community Benefit Fund

A total of \$5 million will be provided by Fortis for a Community Benefit Fund to be utilized for low income and economic development purposes as discussed in greater detail previously in this Joint Proposal.

VI. OTHER PROVISIONS

A. Counterparts

This Joint Proposal may be executed in counterparts, all of which taken together shall constitute one and the same instrument which shall be binding upon each signatory when it is executed in counterpart, filed with the Secretary of the Commission and approved by the Commission; provided, however, that, upon execution, filing with the Secretary and prior to approval by the Commission, each Signatory shall be bound to support adoption of this Joint Proposal and, to the extent required by the context, to undertake actions necessary for implementation of the provisions of this Joint Proposal upon its approval by the Commission.

[52]